Fifty Years

HALEY INDUSTRIES LIMITED · 2001 ANNUAL REPORT

Haley Industries Limited is the world leader in the manufacturing of light alloy sand castings for the aerospace industry. With 50 years of experience meeting the stringent specifications required by the aerospace industry, Haley has extensive engineering, metallurgical and CAD/CAM development expertise in magnesium and aluminum castings. Haley's facilities in Renfrew, Ontario, west of Ottawa, and in Phoenix, Arizona (Presto Casting Company) concentrate on the manufacture of components using extremely complex and sophisticated sand moulds. Haley parts are found on all major aircraft in use today.

Financial Highlights

for the Year Ended December 31, 2001

	(In thousands except per share amount)
Sales	$ 66,649
Earnings from Continuing Operations	3,603
Gain on Sale of Discontinued Operations	4,504
Net Earnings	8,107
Shareholders' Equity	24,078
Capital Expenditures	3,447
Capital Assets	23,890
Working Capital	14,454
Earnings per Common Share from Continuing Operations	$ 0.34

To Our Shareholders

We are pleased to report significant positive developments in 2001. Sales from continuing operations for the year ended December 31, 2001 were a record $66.6 million compared with $61.6 million in 2000, and $53.9 million in 1999. Consolidated earnings after tax from continuing operations were $3.6 million ($0.34 per share) compared with $2.9 million ($0.27 per share) in 2000 and $21,000 ($0.00 per share) in 1999.

In 2000, we reported the Company intended to re-focus on its core business, the production of premium aluminum and magnesium castings primarily for the aerospace industry. As a result, Trimag Limited Partnership (the 50/50 joint venture with Amcan Consolidated Technologies Corp. of Hamilton, Ontario – Haley's parent company) which produced magnesium castings for the automotive industry, was disposed of. In 2000, the Company recorded a charge of $6.1 million, reducing the carrying value of Trimag to nil. Trimag was sold in the fourth quarter of 2001, resulting in a gain of $4.5 million.

As a result of the sale of Trimag, the Company has consolidated net earnings for the year of $8.1 million compared to a loss of $4.4 million in 2000.

As stated in last year's annual report, Amcan determined to continue to narrow its focus as a premier automotive producer and continues to actively review holding its 54% equity interest in Haley. As of the date of this report, no definitive course of action has been undertaken in this respect.

A portion of our success in 2001 can be attributed to improved sales levels. Sales at the Renfrew facility were $43.6 million in 2001 compared to $40.7 million in 2000, an increase of 7%. Presto Casting Company, had sales of $23.0 million compared to $20.9 million in 2000, an increase of 9%. Sales increases were primarily due to the sustained strength of the commuter and business jet markets. Previously reported difficulties with new complex castings at the Renfrew facility are being resolved and for the second consecutive year, yields have improved contributing to overall performance. Presto's operations are running very efficiently and in 2001, recorded its best operating results in three years.

A significant improvement in the balance sheet of Haley has been achieved since December 31, 1999, where total debt stood at $34.3 million and has since been reduced to $17.8 million. One of management's primary objectives will be to continue this trend, which will also include a significant reduction in working capital through the years 2002 and 2003.

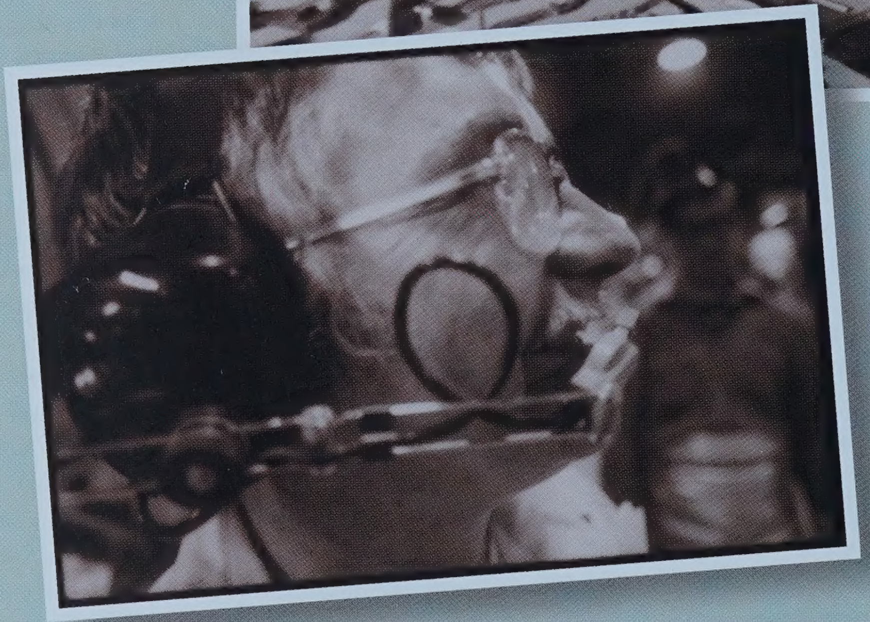
Both the Renfrew facility and Presto are beginning to see the effects of a slowdown in the aerospace industry, and we believe sales for 2002 will be down by about 10% from 2001 levels. Adjustments have already been made to our labour force to bring it into line with expected business volumes.

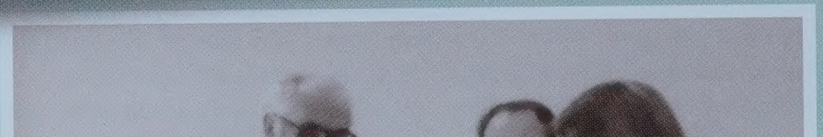
Despite this expected decline, new program bid activity is very high. Perhaps most important to Haley is the awarding in October 2001, of the new Joint Strike Fighter (JSF) aircraft to Lockheed Martin. Haley has already received a contract from Rolls Royce for a fan housing on the STOVL (short take off and vertical landing) variant. Other major castings components have yet to be awarded. This is perhaps the most important new defense program launched in the past twenty years, and is expected to be the largest U.S. defense contract ever. Winning work on this and several other strategic programs will position Haley well for the future.

For the continued improvement in operations, thanks are due to the employees both in Renfrew and at our Presto operations. We fully expect to emerge from this business downturn stronger and more determined than ever to retain our position as the premier supplier of sand castings to the aerospace industry.

Haley celebrates its fiftieth year of operations in 2002. As we reflect on our successes and failures, and enjoy some time with those who made those fifty years possible, we are determined to use the knowledge gained to propel us to new heights in the years to come.

Allan R. Davis
Chairman of the Board, April 5, 2002





Corporate Overview

Haley facilities in Renfrew, Ontario and Phoenix, Arizona ("Presto") manufacture and market high technology magnesium and aluminum alloy castings for the aerospace industry. External market factors, related primarily to the aerospace industry, impact Haley's earnings and cash flows, including airline traffic growth, worldwide airline profits, military budgets and general economic activity.

As described in the Notes to Consolidated Financial Statements, in February 2001 the Company announced a decision to re-focus its efforts on the aerospace business and adopted a formal plan to dispose of its share of the Trimag limited partnership, a 50/50 joint venture with Amcan Consolidated Technologies Corp. of Hamilton, Ontario. Amcan is Haley's parent company. The net book value of the Company's share of Trimag's assets at December 31, 2000 was reduced to nil, reflective of the Company's estimated value on disposal at the time. In October 2001, the sale of Trimag was completed and Haley has recorded a gain of $4.5 million as described below. Trimag is presented as a "Discontinued Operation" for the periods herein.

Concurrent with Haley's decision to focus on the aerospace sector, Amcan determined to narrow its focus as a premier automotive producer and is reviewing its desire to continue holding its 54% equity interest in the Company. To date, no definitive decision to sell has been made by Amcan.

Results of Operations

Haley's operating and financial performance in fiscal 2001 from the continuing aerospace operation was in line with management expectations. Haley's fiscal 2001 results saw an 8% increase in sales compared to 2000, and 10% for 2000 compared with 1999, due primarily to the continued strength of the commuter and business jet sector.

The following is a summary of the continuing aerospace business by quarter for fiscal 2001 and 2000:

	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2001 Year
			(In thousands of dollars)		
Sales	$17,306	$19,442	$15,295	$14,606	$66,649
Operating profit before the undernoted	2,289	2,707	1,634	3,420	10,050
Interest	520	483	376	263	1,642
Depreciation and amortization	473	514	422	520	1,929
Earnings from continuing operations before income taxes	$ 1,296	$ 1,710	$ 836	$ 2,637	$ 6,479

	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2000 Year
			(In thousands of dollars)		
Sales	$15,106	$15,908	$14,206	$16,389	$61,609
Operating profit before the undernoted	1,932	1,784	1,754	2,443	7,913
Interest	563	467	547	535	2,112
Depreciation and amortization	522	509	477	398	1,906
Earnings from continuing operations before income taxes	$ 847	$ 808	$ 730	$ 1,510	$ 3,895

Improved results from continuing operations in 2001 compared to 2000 is attributed to the increase in volumes and improved production costs on certain complex castings. Costs were higher

in 2001 due to increased volumes, higher labour rates, and higher prices for energy and raw material purchases. At the end of 2001 Haley had 530 employees, compared to 575 in 2000. The average labour cost per hour increased by about 3% in 2001 as a result of higher wage rates in the collective agreement. Presto's collective agreement with the United Steelworkers of America expired in October 2001. Presto was notified by the Steelworkers they would no longer be representing the hourly employees.

Results for the year include a foreign exchange gain of $568,000 (2000–$899,000) arising from the translation into Canadian dollars of amounts owing by the United States operation to the Canadian parent. The fourth quarter of 2001 includes $1.1 million benefit of claims for investment tax credits, which were earned in previous years but were not reasonably assured of realization until the fourth quarter of 2001. The significant reduction in interest expense was due to a reduction in Canadian prime rate during the year, and to more favourable rates obtained from the bank on the Company's term loan and operating line.

Taxation

Note 12 to the Consolidated Financial Statements compares expected Canadian effective tax rates to actual tax provisions based on tax laws enacted as at December 31, 2001 for earnings in the principal jurisdictions in which operations are located. The provision for income taxes includes withholding taxes of $50,000 (2000–$277,000) payable when Presto's foreign source earnings or interest charges are remitted to Canada. The Company has available investment tax credits of approximately $4.0 million, which expire at various dates from 2004 to 2011 for which no value has been reflected in the balance sheet due to the uncertainty of their realization. $1.1 million was realized in 2001 and was used to reduce cost of sales and operating expenses.

Changes in Accounting

New accounting rules for earnings per share from the Canadian Institute of Chartered Accountants which became effective in 2001 apply on a retroactive basis. The treasury stock method is used to calculate diluted earnings per share. This method assumes that option proceeds would be used to purchase common shares at the average market price during the period. The change had no significant impact on the reported earnings per share for the years presented.

Liquidity and Capital Resources

Bank and other debt at December 31, 2001 was $17.8 million (2000–$21.5 million), of which $13.1 million (2000–$17.4 million) was long-term debt. Long-term debt decreased during 2001 as a result of scheduled repayments, payments required under the terms of the agreement based on cash flows, and a portion of the net proceeds from the sale of Trimag. The scheduled repayment of the term debt is $625,000 quarterly and the remaining balance outstanding is due in 2004. The bank term loan requires the Company to maintain certain ratios. In the first and second quarters of 2001, the Company was not in compliance with its quick ratio for which a waiver was received from the bank. In September 2001, the loan agreement was amended with respect to the quick ratio. The Company was in compliance with all of the required covenants at December 31, 2001, and expects to be in compliance throughout 2002.

The Company qualifies for funding under a Government of Canada program and, during 2001, received $222,000 (2000–$1.5 million), of which $147,000 (2000–$813,000) was recorded as a long-term obligation. Repayment commences in 2005 based on a percentage of Haley Renfrew sales.

Working capital totalled $14.5 million at December 31, 2001 compared to $5.5 million

at December 31, 2000. Working capital in 2000 included the Company's share of Trimag's working capital deficiency, being $7.5 million. The significant change in working capital is primarily due to the Trimag sale. The Company's current working capital financing consists of an operating line of credit in the amount of $6.0 million with a Canadian chartered bank, of which $2.1 million was outstanding at December 31, 2001 (2000-$1.4 million). The terms of the bank loans and long-term debt and the security given are described in the notes to the Consolidated Financial Statements.

Inventories and accounts receivable are significant assets on the Balance Sheet. Notes 3 and 5 to the Consolidated Financial Statements provide further details. Increased work in process inventories at December 2001 compared to 2000 are mainly attributable to the improved sales levels.

The Company does not hold or issue financial or derivative financial instruments for trading purposes. Approximately 63% of the Canadian operation's sales (65% for 2000) are denominated in U.S. funds. Where possible, expenditures are made in U.S. funds and it is the Company's practice to purchase forward exchange contracts to manage foreign currency exposure.

Capital expenditures for the year ended December 31, 2001 amounted to $3.4 million compared to $1.0 million for 2000. The Renfrew facility expenditures were $1.5 million of the total amount, primarily for upgrades to environmental systems. The Company has purchased approximately $1.9 million of the Trimag capital assets at Trimag's net book value, which approximates fair value and these assets are being leased to the Trimag purchaser over 10 years.

The major expenditures anticipated for 2002 at the Renfrew and Presto facilities are for additional upgrades to environmental systems of approximately $600,000 and for the purchase for digital radiographic equipment in the amount of $850,000.

The Company maintains various non-contributory defined benefit pension plans providing pension and other retirement benefits to most of its employees. The accrued pension benefit obligation at December 31, 2001 was $3,033,000. For further information on pension matters, see Note 11 to the Consolidated Financial Statements, including pension assumptions. To the extent these assumptions are not realized, Haley's pension expense and cash funding could increase or decrease.

Discontinued Operations – Automotive

In October 2001 the Company completed the sale of its share of Trimag, whereby Trimag sold all of its operating assets. The Company's share of the proceeds from the sale was $9.9 million, of which $5.2 million was used to repay Trimag's debt. After costs of sales and net of tax recoveries of $777,000, the Company has recorded a gain on disposal of $4.5 million in the fourth quarter of 2001. Haley has been released from a $2.0 million guarantee in respect of Trimag's indebtedness. In accordance with Haley's banking arrangement, $1.2 million of the proceeds were used to pay down Haley's debt.

Environmental Matters

The Company is subject to environmental laws and regulations enacted by federal, provincial, state, and local authorities in Canada and the United States. In Canada, the Company is required to maintain Certificates of Approval with respect to its water discharge, air emissions and landfill site. The Ministry of the Environment conducts periodic compliance reviews, and the Company is required to perform ongoing testing of its discharges. From time to time due to non compliance matters

which arise, remediation and containment orders are received which require action by the Company. During the year ended December 31, 2001 capital expenditures, primarily related to the construction of a new sewage treatment facility, on environmental related projects totalled $956,000 (2000–$414,000). The Company also incurs ongoing costs in respect of environmental compliance and the costs are included in cost of sales and operating expenses. In 2001, such costs amounted to $424,000 (2000–$275,000).

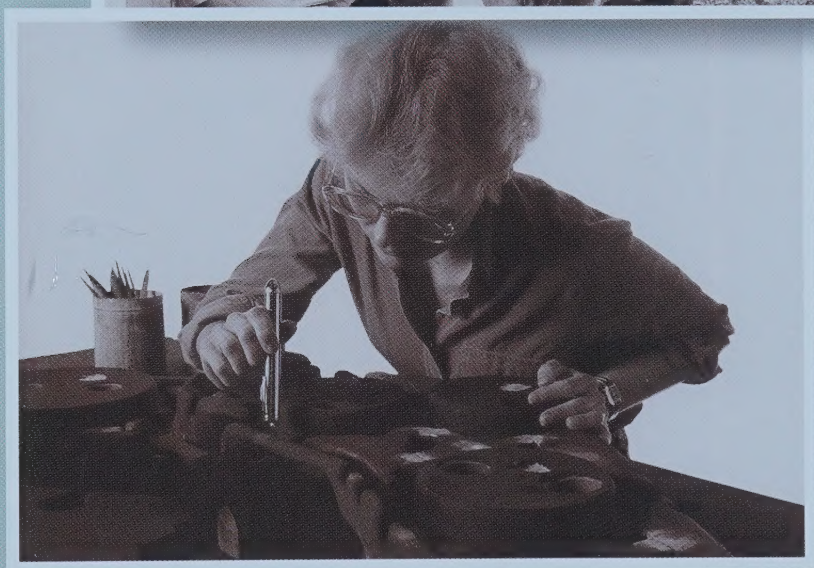
The estimation of future environmental related costs depend on the development of appropriate remediation plans, which may require research to identify preferred methods using economically available best practices. The Company commits technical resources as it deems necessary, including outside consultants, to develop action plans in accordance with the requirements of the various jurisdictions within which it operates. In view of the uncertainties concerning environmental requirements, actual future costs for remediation could differ from amounts planned. For 2002, planned capital and operating expenditures for environmental projects amount to $1.1 million primarily for the ongoing remediation of the landfill site and for planned changes to the production process required to improve operations from an environmental standpoint.

Outlook

One of Haley's biggest tasks in 2002 will be to adjust to uncertain market conditions currently affecting the aerospace industry and the economy generally. Despite reduced new orders and backlogs compared to 2001, new program bid activity is high. The challenge for the Company will be to demonstrate to its customers that it is the Company best suited to provide high quality premium castings at a cost in line with their expectations.

Cautionary Note Concerning Factors That May Affect Future Results

This MD&A contains statements which, to the extent they are not statements of historical or present fact, constitute "forward-looking statements" under the securities laws. From time to time, oral or written forward-looking statements may also be included in other materials released to the public. These forward-looking statements are intended to provide management's current expectations or plans for the future operating and financial performance of the Company, based on assumptions currently believed to be valid. Forward-looking statements can be identified by the use of words such as: "believe," "expect," "plans," "outlook," "strategy," "prospects," "estimate," "anticipate" and other words of similar meaning in connection with a discussion of future operating or financial performance. All forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those expressed or implied in the forward-looking statements.



Management Responsibility
for Financial Statements

The consolidated financial statements and other information contained in this annual report are the responsibility of the management of the Company. Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Company.

Management maintains a system of internal accounting controls to ensure that properly approved transactions are accurately recorded on a timely basis and result in reliable financial statements.

The Company's external auditors are appointed by the shareholders. They independently perform the necessary tests of the Company's accounting records and procedures to enable them to express an opinion as to the fairness of the consolidated financial statements and their conformity with generally accepted accounting principles.

The Audit Committee, which is composed of a majority of outside Directors, meets with management and the Company's external auditors to review the annual financial statements and reports on them to the Board of Directors of the Company. The financial statements have been approved by the Board of Directors.

Auditors' Report to the Shareholders
for the year ended December 31, 2001

We have audited the consolidated balance sheets of Haley Industries Limited as at December 31, 2001 and 2000 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Ottawa, Canada
February 1, 2002

Consolidated Balance Sheets
as at December 31, 2001 and 2000

	2001	2000
	(In thousands)	
Assets		
Current assets		
Cash	$ 331	$ 652
Accounts receivable	12,899	13,001
Inventories	11,619	9,266
Prepaid expenses	181	240
Current assets of discontinued operations	-	5,097
	25,030	28,256
Capital assets	23,890	22,137
Other assets	725	1,078
Future Income Taxes	1,096	937
Capital and other assets of discontinued operations	-	6,551
	$50,741	$58,959
Liabilities		
Current liabilities		
Bank indebtedness	$ 2,108	$ 1,400
Accounts payable and accrued liabilities	5,520	5,701
Income taxes payable	80	361
Current portion of long-term debt	2,646	2,776
Current liabilities of discontinued operations	222	12,563
	10,576	22,801
Long-term debt	13,054	17,372
Pension liability	3,033	2,854
	26,663	43,027
Shareholders' Equity		
Capital stock	8,908	8,834
Retained earnings	15,211	7,129
Cumulative translation adjustment	(41)	(31)
	24,078	15,932
	$50,741	$58,959

Signed on Behalf of the Board

Allan R. Davis, Chairman

Robert J. Bradshaw, Director

(The accompanying notes are an integral component of the consolidated financial statements)

Consolidated Statements of Earnings and Retained Earnings

for the years ended December 31, 2001 and 2000

	2001	2000
	(In thousands except per share amounts)	
Sales	**$66,649**	$61,609
Expenses		
Cost of sales and operating expenses	**56,222**	53,399
Interest on long-term debt	**1,398**	1,927
Interest expense	**244**	185
Research and development	**900**	750
Provision for doubtful amount	**45**	446
Foreign exchange gain	**(568)**	(899)
Depreciation and amortization	**1,929**	1,906
	60,170	57,714
Earnings from continuing operations before income taxes	**6,479**	3,895
Provision for income taxes	**2,876**	1,034
Earnings from continuing operations	**3,603**	2,861
Gain (loss) from discontinued operations	**4,504**	(7,218)
Net earnings (loss) for the year	**8,107**	(4,357)
Retained earnings – beginning of year	**7,129**	11,538
Repurchase of stock options	**(25)**	(52)
Retained earnings – end of year	**$15,211**	$ 7,129
Per common share		
Earnings from continuing operations		
Basic	**$0.34**	$0.27
Diluted	**$0.34**	$0.26
Net Earnings (loss) for the year		
Basic	**$0.77**	($0.41)
Diluted	**$0.76**	($0.41)

(The accompanying notes are an integral component of the consolidated financial statements)

Consolidated Statements of Cash Flows

as at December 31, 2001 and 2000

	2001	2000
	(In thousands)	
Cash provided from (used in)		
Operating activities		
Earnings from continuing operations	$3,603	$2,861
Depreciation and amortization	1,929	1,906
Other non cash charges in earnings	2	12
Income taxes – non cash	1,694	78
Investment tax credits	(1,076)	-
Net change in the components of working capital from continuing operations other than bank indebtedness	(2,462)	349
Cash provided from continuing operations	3,690	5,206
Investing activities		
Purchase of capital assets	(3,447)	(1,012)
Deferred costs	(141)	(81)
Cash used in investing activities of continuing operations	(3,588)	(1,093)
Financing activities		
Bank indebtedness	708	(2,766)
Repayment of term debt	(4,491)	(2,743)
Proceeds from long term debt and other financing	277	813
Proceeds from exercise of stock options	74	40
Stock options	(25)	-
Cash used in financing activities of continuing operations	(3,457)	(4,656)
Cash used in continuing operations	(3,355)	(543)
Net cash proceeds from sale of discontinued operations	3,034	-
Net decrease in cash for the year	(321)	(543)
Cash – beginning of year	652	1,195
Cash – end of year	$ 331	$ 652
Taxes paid	$1,182	$ 956
Interest paid	$1,642	$2,112

(The accompanying notes are an integral component of the consolidated financial statements)

1. Significant accounting policies

a) Principles of consolidation
The consolidated financial statements include the accounts of Haley Industries Limited and the Company's wholly owned subsidiary, Presto Casting Company. The Company's 50% investment in the Trimag joint venture is accounted for in the balance sheets using the proportionate consolidation method (Note 2).

b) Basis of recording revenue
Revenue is recognized when title passes to the purchaser, which is usually when the goods are conveyed to a carrier or when the tooling is accepted by the customer.

c) Inventory valuation
Inventories are valued at the lower of cost and market. For finished goods and work in process, cost is calculated on an average cost basis and market is determined as net realizable value. For patterns, cost is determined on a specific item basis and market is determined as net realizable value. For raw materials and supplies, cost is calculated on the first in, first out basis and market is determined as replacement cost.

d) Depreciation
Depreciation is calculated using the straight line and declining balance methods over the following periods:

Buildings	12 to 40 years	Machinery and equipment	3 to 12 years

e) Pattern development costs
Pattern development costs are expensed in the year incurred, except for the costs of certain major patterns which are expected to be recovered over the projected term of the related castings production. In these instances only, pattern development costs are recorded as a deferred charge and are amortized over a period not to exceed five years.

f) Foreign exchange translation
The Company's foreign operations are of a self-sustaining nature. Assets and liabilities of these foreign operations are translated at the rate of exchange prevailing at the balance sheet dates, and revenues and expenses are translated at the average exchange rates for the years. Gains or losses on translation are shown as a separate component in shareholders' equity.

g) Research and development costs
Research costs are expensed in the year incurred. Development costs are expensed in the year incurred unless they meet rigorous criteria for deferral and amortization. Fixed assets acquired for research and development are included in machinery and equipment and amortized over their useful lives.

h) Stock based compensation plan
The Company has a stock based compensation plan, which is described in Note 10. No compensation expense is recognized when stock or stock options are issued. Any consideration on exercise of options or purchase of stock is credited to capital stock if stock is purchased. On election to receive the cash equivalent of the amount by which the market value of the shares exceeds the option price, the amount paid is charged to retained earnings.

i) Income taxes
The Company follows the liability method in accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

j) Employee future benefits
The Company accrues obligations under employee benefit plans, net of plan assets. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, and retirement ages of employees. For the purposes of calculating the expected return on plan assets, those assets are valued at fair value. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The excess of the net actuarial gain or loss is amortized over the average remaining service period of active employees.

k) Debt issue costs
Debt issue costs are amortized over the term of the debt, generally five years.

2. Trimag limited partnership

From 1995 to October 2001 Haley had a 50/50 limited partnership ("Trimag") with Amcan Consolidated Technologies Corp. ("Amcan") of Hamilton, Ontario. Amcan is Haley's parent company. The joint venture, located at Haley's Renfrew facility, was established to produce magnesium and aluminum die-castings for the automotive industry.

On February 23, 2001, Haley's Board of Directors adopted a formal plan to dispose of the Company's interest in the Trimag limited partnership. In the fourth quarter of fiscal 2000, the Company recorded a $6.1 million charge for Haley's estimated loss on disposal, including expected losses up to the disposal date and costs to sell. In June 2001, the Company announced that it had entered into an agreement in principle to sell its share of Trimag. The transaction closed October 12, 2001 with the acquirer assuming operational responsibility as of October 1, 2001. The Company's share of the proceeds of sale were $9.9 million, of which $5.2 million was used to repay Trimag's debt. As part of the transaction, Haley acquired from Trimag certain capital assets in the amount of $1.9 million related to the Trimag building owned by Haley. The acquirer continues to maintain operations at the Trimag facility located at Haley, Ontario under a new building lease arrangement with Haley.

After costs of sale and including tax recoveries of $777,000, the sale resulted in a gain of $4.5 million. As the bank was repaid in full, Haley was released from a $2.0 million bank guarantee in respect of Trimag's indebtedness.

The Company's proportionate share of the results of the Trimag limited partnership to the date of sale, the charge for Haley's estimated loss on disposal of the limited partnership in fiscal 2000 and the ultimate gain realized in fiscal 2001 have been treated as discontinued operations in these consolidated statements.

The Company's proportionate share of the operating results of Trimag for the period ended October 12, 2001 and for the year ended December 31, 2000 are as follows:

	2001	2000
	(In thousands)	
Sales	**$14,264**	$22,337
Results of operations to the measurement date of February 23, 2001	-	(1,719)
Recovery of income taxes	-	(618)
Loss from discontinued operations to the measurement date	-	(1,101)
Gain (provision for loss) on disposal, including income tax recoveries of $777 (2000–nil)	**4,504**	(6,117)
Gain (loss) from discontinued operations	**$ 4,504**	$(7,218)

3. Accounts receivable

While the Company sells its product to many customers, three customers represent 52% of the year end balance of accounts receivable (2000–three customers represent 59%).

It is the Company's practice to purchase forward exchange contracts to manage foreign currency exposure related to foreign currency denominated sales. The Company has entered into forward foreign exchange contracts at December 31, 2001 with a Canadian chartered bank that oblige the Company to sell and the bank to buy U.S. $6.7 million (December 31, 2000–U.S. $7.2 million) at set future dates during the subsequent 12 months at predetermined exchange rates that average Cdn. $1.57 (December 31, 2000–Cdn. $1.50). The contracts are matched with anticipated U.S. dollar cash flows from export sales. Prevailing market rates at December 31, 2001 for similar contracts would average Cdn. $1.59 (December 31, 2000–Cdn. $1.49).

At December 31, 2001 accounts receivable included $1.5 million (2000–$1.3 million) of amounts due in U.S. dollars hedged with forward foreign exchange contracts referred to above.

4. New accounting pronouncements

In fiscal 2001, the Company adopted the new Canadian Institute of Chartered Accountants Handbook section, Earnings per Share, Section 3500, on a retroactive basis with restatement. Under the recommendations, the treasury stock method is used to calculate diluted earnings per share. The treasury stock method assumes that any option proceeds would be used to purchase common shares at the average market price during the period. This change had no material impact on the reported earnings per share for 2000 and in 2001.

5. Inventories

	2001	2000
	(In thousands)	
Finished goods	$ 1,540	$1,053
Work in process	6,820	5,630
Raw materials and supplies	2,246	2,100
Patterns	1,013	483
	$11,619	$9,266

6. Capital assets

	2001 Cost	2001 Accumulated Depreciation	2001 Net	2000 Cost	2000 Accumulated Depreciation	2000 Net
			(In thousands)			
Land	$ 2,014	$ -	$ 2,014	$ 1,862	$ -	$ 1,862
Buildings	16,093	5,807	10,286	15,261	5,301	9,960
Machinery and equipment	35,948	24,358	11,590	32,777	22,462	10,315
	$54,055	$30,165	$23,890	$49,900	$27,763	$22,137

Included in capital assets are assets held for leasing purposes for cost of $3.9 million and accumulated depreciation of $210,000.

7. Other assets

	2001	2000
	(In thousands)	
Amounts receivable	$149	$ 53
Debt issue costs (net of accumulated amortization of $167; 2000–$83)	228	312
Deferred pattern costs (net of accumulated amortization of $877; 2000–$512)	348	713
	$725	$ 1,078

8. Bank indebtedness

The Company has arranged an operating line of credit in the amount of $6.0 million with a Canadian chartered bank which bore interest during 2001 at prime plus 1/2%, of which $2.1 million was outstanding at December 31, 2001 (2000–$1.4 million). The line of credit has the same security and covenant arrangements as described for the bank term loan discussed in Note 9.

9. Long term debt

	2001	2000
	(In thousands)	
Bank term loan	**$11,494**	$15,985
Convertible subordinated debentures-		
1997 Series A, due July 2004	**165**	165
1997 Series B, due July 2004	**2,600**	2,600
Government of Canada financing	**1,441**	1,398
	15,700	20,148
Less current portion	**(2,646)**	(2,776)
	$13,054	$17,372

Principal repayments for the long term debt are as follows:

	(In thousands)
2002	$ 2,646
2003	2,605
2004	9,259
2005	49
2006	-
Thereafter	1,141

The bank term loan for 2001 bears interest at prime plus 2 1/2% to March 31, 2001 after which the rate was reduced to prime plus 1% (2000–prime plus 2 1/2%). The rate may be reduced to prime plus 1/2% under certain circumstances. The principal is repayable at $625,000 per quarter with the balance outstanding due in 2004. In addition, the Company is required annually to make additional payments based on its actual cash flows and in February 2001 made such a payment of $791,000. In accordance with the Company's banking arrangements, some of the residual proceeds from the Trimag sale in the amount of $1.2 million were used to pay down term debt. The loan is subject to the Company maintaining certain covenants, including required financial ratios. In connection with the operating line of credit and the term loan, the Company has provided the bank a security interest in all assets. The Company may not borrow, pay dividends or make investments of capital expenditures in excess of specified limits without the bank's permission. In the first and second quarters of 2001, the Company was not in compliance with its quick ratio, for which a waiver was received from the bank. In September 2001, the bank amended the credit agreement including the quick ratio. All other required ratios were in compliance during the year. The Company is currently in compliance with the covenants.

The 1997 debentures are direct unsecured obligations of the Company. At any time prior to maturity, holders of Series A debentures may convert each U.S. $1,000 principal amount of debentures into 154 common shares of the Company and holders of Series B debentures may convert each Cdn. $1,000 principal amount of debentures into 129 common shares of the Company. The 1997 debentures bore interest at 9%.

The Government of Canada financing includes $298,000 (2000–$585,000) of loans which are non interest bearing and repayable in five equal annual installments.

During the year the Company received proceeds from an additional Government of Canada funding program which are required to be repaid commencing in 2005, based on a percentage of sales of the Company. The financial statements reflect the estimated repayable amounts, with imputed interest at 9 1/4%.

The fair values of long term debt, determined as contractual cash flows discounted at the current market rates of interest for similar liabilities, would not be significantly different than the carrying value of the debt on a consolidated basis.

10. Capital stock

	2001	2000
	(In thousands)	
Authorized – An unlimited number of common shares		
Issued – 10,568,200 common shares (2000–10,526,200)	**$ 8,908**	$ 8,834

As at December 31, 2001 options to acquire up to 672,600 (2000–684,400) common shares were outstanding, of which 576,600 (2000–671,200) were exercisable, under the Haley Management Share Option Plan. There are 748,676 shares authorized for the purposes of the Plan. Holders of the options may exercise up to 20% of the options each year, on a cumulative basis, during the five year period after the date of granting. The existing option exercise prices range from $1.50 to $3.80 per share, and the weighted average of those outstanding is $1.94. The existing options expire no later than September 2005. Holders of options may elect, on exercise, to receive the cash equivalent of the amount by which the market value of the shares exceeds the option price. During the year, options to purchase 120,000 shares were issued. Also during 2001, options to purchase 42,000 (2000–20,000) shares were exercised for total proceeds of $74,000 (2000–$40,000) and holders of 54,600 options (2000–80,000 options) elected to receive $25,000 (2000–$52,000) and 35,200 (2000–25,000) were forfeited.

The weighted average number of shares outstanding and the effects of dilution are as follows:

	2001	2000
	(In thousands)	
Basic	**10,550**	10,514
Potential dilution – Stock options	**86**	804
Diluted	**10,636**	11,318

11. Pension plans

The Company maintains various non-contributory defined benefit pension plans providing pension, other retirement and post-employment benefits to most of its employees. The pension expense for such plans for the current year of $723,000 (2000–$664,000) is actuarially determined. In October 2001, the Company sold its interest in Trimag (see Note 2). As part of the divestiture the non-contributory defined benefit pension plan for the employees of Trimag was assumed by the buyer. Information respecting the Company's plans at December 31 is as follows:

	2001	2000
Accrued Benefit Obligation	*(In thousands)*	
Balance – beginning of year	**$11,175**	$10,467
Current service cost	**564**	586
Interest cost	**713**	656
Benefits paid	**(466)**	(534)
Settlements	**(497)**	-
Balance – end of year	**$11,489**	$11,175

	2001	2000
	(In thousands)	
Plan Assets		
Fair value – beginning of year	**$9,020**	$7,627
Actual return on plan assets	**598**	1,177
Employer contributions	**378**	750
Benefits paid	**(566)**	(534)
Settlements	**(506)**	-
Fair value – end of year	**$8,924**	$9,020
Funded status	**$2,565**	$2,155
Unrecognized net actuarial gain	**468**	699
Accrued pension benefit obligation recognized in the balance sheet	**$3,033**	$2,854

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligation include a discount rate of 6% (2000–6%), an expected long term rate of return on plan assets of 6 1/2% (2000–6 1/2%) and a rate of compensation increase of 3 1/2% (2000–3 1/2%).

The components of pension expense for the year ended December 31, 2001 and 2000 are as follows:

	2001	2000
	(In thousands)	
Current service cost	**$ 564**	$ 586
Interest cost	**713**	656
Expected return on plan assets	**(554)**	(578)
Pension expenses from continuing operations	**$ 723**	$ 664
Settlement – discontinued operation	**$ 51**	$ -

12. Income tax

The following is a summary of the tax provision for the year ended December 31, 2001:

Provision	2001	2000
	(In thousands)	
Current – Foreign	**$1,182**	$ 956
Future – Canadian	**1,694**	78
	$2,876	$1,034

The income tax provision reported differs from the amounts computed by applying the Canadian rate to income before income taxes. The reasons for this difference and the related tax effects are as follows:

	2001	2000
	(In thousands)	
Expected Canadian rate	**42.0%**	44.6%
Expected income tax provision from continuing operations	**$2,721**	$1,737
Canadian rate adjustment for manufacturing and processing activities	**(166)**	19
Realized benefit of income tax loss carry forwards	**-**	(445)
Withholding tax on dividends and other	**321**	(277)
Reported income tax provision	**$2,876**	$1,034
Effective rate	**44.4%**	26.5%

Future income taxes result principally from temporary differences in the recognition of certain revenue and expense items for financial and tax reporting purposes. The significant components of non-current future income tax assets and liabilities at December 31, 2001 are as follows:

	2001	2000
Future tax assets	*(In thousands)*	
Operating tax loss carryforwards	$ -	$ 304
Research and development expenses	2,841	4,283
Book and tax differences on pension assets	1,034	974
Total future tax assets	3,875	5,561
Future tax liabilities		
Book and tax differences on fixed assets	2,167	4,290
Investment tax credits	368	-
Book and tax differences on other assets	244	334
Net future tax liabilities	2,779	4,624
Net future income tax asset	$ 1,096	$ 937

The Company has available investment tax credits of approximately $4.0 million which expire at various dates from 2004 to 2011 for which no value has been reflected in the balance sheet due to the uncertainty of their realization.

13. Government of Canada funding

Research and development expenses are net of federal government funding of $19,000 (2000-$800,000). Investment tax credits of $1,076,000 (2000–nil) have been reflected as a reduction of cost of sales and operating expenses.

14. Segmented information

Reportable Segments

The Company has one reportable segment, being the aerospace segment which manufactures and markets high technology magnesium and aluminum alloy castings primarily for the aerospace industry.

Geographic segments	2001	2000
	(In thousands)	
Sales		
Canada	$11,184	$16,082
United States	49,461	38,576
Other	6,004	6,951
	$66,649	$61,609

Capital assets	2001	2000
	(In thousands)	
Canada	$19,871	$18,188
United States	4,019	3,949
	$23,890	$22,137

Sales are attributed to countries based on location of customer and fixed assets are based on the country in which the fixed assets are located.

15. Related party transactions

The Company has the following transactions and balances with Amcan:

	2001	2000
	(In thousands)	
Sales by Trimag to Amcan	$5,415	$9,156
Cancellation costs on Trimag tooling	501	-
Reimbursement of costs incurred on disposal of Trimag	268	-
Trimag charges to Amcan for tooling costs	307	-
Metal purchase and sales commissions – Trimag	1,003	2,815
Amcan management and other fees charged to the Company	400	160

The provision for cancellation costs of $501,000 relate to a sales contract terminated by Trimag and is also included with current liabilities of discontinued operation at December 31, 2001.

Transactions with Amcan are recorded at their exchange amount which was generally at terms and conditions similar to those with related parties at their estimated fair market value.

16. Environmental matters

The Company is subject to environmental laws and regulations enacted by federal, provincial, state and local authorities in Canada and the United States. In Canada, the Company is required to maintain Certificates of Approval with respect to its water discharge, air emissions and landfill site. The Ministry of the Environment conducts periodic compliance reviews, and the Company is required to perform ongoing testing for its discharges. From time to time due to non compliance matters which arise, remediation and containment orders are received which require action by the Company. During the year ended December 31, 2001 capital expenditures, primarily related to the construction of a new sewage treatment facility, on environmental related projects totalled $956,000 (2000–$414,000). The Company also incurs ongoing costs in respect of environmental compliance and the costs included in cost of sales and operating expenses amounted to $424,000 (2000–$275,000). In view of the uncertainties concerning environmental requirements, actual future costs for remediation could differ from amounts planned.

Five Year Summary
of Financial Statistics

	2001	2000	1999	1998	1997
	(Unaudited – In thousands except per share amounts)				
Sales	**$66,649**	$61,609	$53,893	$61,758	$51,242
Earnings (Loss) before Income Taxes from Continuing Operations	**6,479**	3,895	(355)	5,540	3,916
Net Earnings from Continuing Operations	**3,603**	2,861	21	3,516	2,846
Net Earnings (Loss)	**8,107**	(4,357)	(89)	3,714	3,018
Depreciation – Continuing Operations	**1,929**	1,906	1,918	1,811	1,700
Capital Expenditures – Continuing Operations	**1,535**	1,012	2,665	4,429	4,423
Long Term Debt – Continuing Operations	**15,700**	20,148	22,072	21,792	20,937
Working Capital	**14,454**	5,455	8,072	12,165	13,275
Shareholders' Equity	**24,078**	15,932	23,722	24,411	20,643
Earnings per Common Share from Continuing Operations – Basic	**$ 0.34**	$ 0.27	$ 0.00	$ 0.33	$ 0.26

Corporate Information

Head Office
Haley Industries Limited
Haley, Ontario, Canada
K0J 1Y0
Tel: (613) 432-8841
Fax: (613) 432-0743
e-mail: info@haley.on.ca
www.haley.on.ca

Subsidiaries
Haley Holding Company, Inc.
Phoenix, Arizona, U.S.A.

Presto Casting Company
Phoenix, Arizona, U.S.A.
(602) 939-9441

Directors
Leslie L. Armitage
Managing Director
The Carlyle Group

Robert J. Bradshaw† *
Chairman
Contor Industries Limited

George B. Berta†
Vice Chairman
Amcan Consolidated Technologies Corp.

Allan R. Davis
Chairman
Amcan Consolidated Technologies Corp.

Donald C. Lowe*
Consultant and Corporate Director

J. David Williamson† *
Executive Vice President
Clarica

Honourary Directors
Robert M. Barr
Robert M. Turnbull

† Member of the Audit Committee
** Member of the Corporate Governance Committee*

Officers
Allan R. Davis
Chairman of the Board

Derrick Bartram
President & Chief Executive Officer

James C. Lemenchick
Vice President, Finance and Secretary

Peter J. Clark
Vice President & General Manager

Lawrence D. Herman
Vice President & General Manager
Presto Casting Company

Transfer Agent & Registrar
Computershare Trust Co. of Canada Toronto, Vancouver, Calgary, Regina, Winnipeg and Montreal, Canada

Legal Counsel
Borden, Ladner, Gervais, LLP
Toronto, Canada

Auditors
Ernst & Young LLP
Ottawa, Canada

Annual Meeting
The Annual Meeting of the Shareholders of Haley Industries Limited will be held at The Royal York Hotel, 100 Front Street West, Toronto, Canada on Thursday, May 23, 2002, at 11:00 a.m.

Designed and prepared by: Calliope Consulting Inc.

HALEY INDUSTRIES 50 1952 - 2002

HALEY

www.haley.on.ca